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**TWO FEATHERS - NATIVE
AMERICAN FAMILY SERVICES**

AUDIT REPORT

YEARS ENDED JUNE 30, 2008 AND 2007



Vargas and Company

certified public accountants

TWO FEATHERS - NATIVE AMERICAN FAMILY SERVICES
June 30, 2008 and 2007

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Vargas and Company

certified public accountants

INDEPENDENT AUDITORS' REPORT

To the Board Members of
Two Feathers - Native American Family Services
McKinleyville, California


We have audited the accompanying statement of financial position of Two Feathers - Native American Family Services (a nonprofit organization) as of June 30, 2008 and 2007, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of Two Feathers - Native American Family Services' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Two Feathers - Native American Family Services as of June 30, 2008 and 2007, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 5, 2009 on our consideration of Two Feathers - Native American Family Services' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.


Vargas and Company
San Jose, California
March 5, 2009

601 North First Street / San Jose, California 95112 / (408) 298-1700 / Fax (408) 293-9598

Financial Statements

TWO FEATHERS - NATIVE AMERICAN FAMILY SERVICES
Statements of Financial Position
June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ (1,520)	\$ 16,951
Grant and contract receivables	60,572	38,777
Other assets	<u>1,771</u>	<u>1,781</u>
Total current assets	60,823	57,509
Property and equipment, net	<u>37,109</u>	<u>58,258</u>
TOTAL ASSETS	\$ <u>97,932</u>	\$ <u>115,767</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 24,839	\$ 19,682
Accrued expenses	6,252	7,749
Deferred revenue	-	254
Other liabilities	<u>54,000</u>	<u>29,237</u>
Total liabilities	85,091	56,922
Unrestricted Net Assets	<u>12,841</u>	<u>58,845</u>
TOTAL LIABILITIES AND NET ASSETS	\$ <u>97,932</u>	\$ <u>115,767</u>

The accompanying notes are an integral part of these financial statements.

TWO FEATHERS - NATIVE AMERICAN FAMILY SERVICES

Statements of Activities Years Ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
OPERATING REVENUES		
Grant and contract revenue	\$ 261,846	\$ 325,615
Other revenue	4,635	9,696
In-kind and cash match	<u>3,592</u>	<u>8,041</u>
Total Operating Revenues	<u>270,073</u>	<u>343,352</u>
OPERATING EXPENSES		
Program services	265,266	336,475
Support services	<u>49,391</u>	<u>36,942</u>
Total Operating Expenses	<u>314,657</u>	<u>373,417</u>
NON-OPERATING REVENUES (EXPENSES)		
Interest income	23	29
Gain on sale of property and equipment	<u>-</u>	<u>12,545</u>
Total Non-Operating Revenues	<u>23</u>	<u>12,574</u>
Change in net assets	(44,561)	(17,491)
UNRESTRICTED NET ASSETS, BEGINNING	58,845	76,336
PRIOR PERIOD ADJUSTMENTS	<u>(1,443)</u>	<u>-</u>
UNRESTRICTED NET ASSETS, ENDING	<u>\$ 12,841</u>	<u>\$ 58,845</u>

The accompanying notes are an integral part of these financial statements.

TWO FEATHERS - NATIVE AMERICAN FAMILY SERVICES

Statement of Functional Expenses

Year Ended June 30, 2008

	<u>PROGRAM SERVICES</u>			
	<u>VAWA</u>	<u>AICHA</u>	<u>CO - TKWOHM</u>	<u>Others</u>
Salaries	\$ 53,385	\$ 41,242	\$ 47,396	\$ 4,764
Payroll taxes and employee benefits	10,203	8,142	8,794	1,230
Group leaders and education	-	8,193	1,033	1,500
Professional fees	4,654	5,767	6,141	-
Insurance	3,984	712	5,446	-
Office supplies and postage	278	321	1,637	-
Cultural group supplies	226	2,115	226	2,639
Occupancy	6,333	4,717	5,719	150
Communication	1,523	1,229	2,144	-
Travel and training	6,824	2,422	225	-
Local client transportation	1,554	1,405	2,987	862
Utilities	925	432	752	-
Depreciation	-	-	-	-
In-kind and cash match	-	3,485	-	-
Miscellaneous	<u>1,330</u>	<u>-</u>	<u>-</u>	<u>220</u>
 TOTAL OPERATING EXPENSES	 \$ <u>91,219</u>	 \$ <u>80,182</u>	 \$ <u>82,500</u>	 \$ <u>11,365</u>

Continued

The accompanying notes are an integral part of these financial statements.

TWO FEATHERS - NATIVE AMERICAN FAMILY SERVICES

Statement of Functional Expenses

Year Ended June 30, 2008

	<u>PROGRAM SERVICES</u>		<u>SUPPORT SERVICES</u>	
	<u>Others</u>	<u>Total Program Services</u>	<u>General</u>	<u>Total</u>
Salaries	\$ 4,764	\$ 146,787	\$ 2,954	\$ 149,741
Payroll taxes and employee benefits	1,230	28,369	2,614	30,983
Group leaders and education	1,500	10,726	1,999	12,725
Professional fees	-	16,562	6,448	23,010
Insurance	-	10,142	120	10,262
Office supplies and postage	-	2,236	8,968	11,204
Cultural group supplies	2,639	5,206	654	5,860
Occupancy	150	16,919	-	16,919
Communication	-	4,896	1,147	6,043
Travel and training	-	9,471	1,061	10,532
Local client transportation	862	6,808	1,022	7,830
Utilities	-	2,109	152	2,261
Depreciation	-	-	21,149	21,149
In-kind and cash match	-	3,485	-	3,485
Miscellaneous	220	1,550	1,103	2,653
	<u>220</u>	<u>1,550</u>	<u>1,103</u>	<u>2,653</u>
 TOTAL OPERATING EXPENSES	 \$ <u>11,365</u>	 \$ <u>265,266</u>	 \$ <u>49,391</u>	 \$ <u>314,657</u>

Concluded

The accompanying notes are an integral part of these financial statements.

TWO FEATHERS - NATIVE AMERICAN FAMILY SERVICES

Statement of Functional Expenses

Year Ended June 30, 2007

	<u>PROGRAM SERVICES</u>			
	<u>VAWA</u>	<u>ICWA</u>	<u>CJAP</u>	<u>CO - TKWOHM</u>
Salaries	\$ 56,526	\$ -	\$ 25,415	\$ 73,940
Payroll taxes and employee benefits	13,853	-	3,337	14,564
Group leaders and education	-	8,350	4,550	210
Professional fees	7,550	5,333	3,871	6,917
Insurance	4,755	-	1,274	5,274
Office supplies and postage	1,235	2,401	3,807	2,236
Cultural group supplies	329	948	6,459	641
Occupancy	12,499	30	3,000	13,151
Communication	1,402	429	822	3,183
Travel and training	4,313	658	1,403	-
Local client transportation	4,024	272	2,323	3,410
Utilities	996	17	307	1,326
Depreciation	-	-	-	-
In-kind and cash match	-	-	8,041	-
Miscellaneous	-	610	4,833	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL OPERATING EXPENSES	\$ <u>107,482</u>	\$ <u>19,048</u>	\$ <u>69,442</u>	\$ <u>124,852</u>

Continued

The accompanying notes are an integral part of these financial statements.

TWO FEATHERS - NATIVE AMERICAN FAMILY SERVICES

Statement of Functional Expenses

Year Ended June 30, 2007

	<u>PROGRAM SERVICES</u>		<u>SUPPORT SERVICES</u>	
	<u>Others</u>	<u>Total Program Services</u>	<u>General</u>	<u>Total</u>
Salaries	\$ 183	\$ 156,064	\$ 873	\$ 156,937
Payroll taxes and employee benefits	-	31,754	829	32,583
Group leaders and education	12,316	25,426	2,065	27,491
Professional fees	-	23,671	-	23,671
Insurance	-	11,303	164	11,467
Office supplies and postage	-	9,679	2,300	11,979
Cultural group supplies	2,922	11,299	309	11,608
Occupancy	-	28,680	-	28,680
Communication	-	5,836	1,607	7,443
Travel and training	-	6,374	2,306	8,680
Local client transportation	201	10,230	345	10,575
Utilities	-	2,646	97	2,743
Depreciation	-	-	25,188	25,188
In-kind and cash match	-	8,041	-	8,041
Miscellaneous	29	5,472	859	6,331
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL OPERATING EXPENSES	\$ <u>15,651</u>	\$ <u>336,475</u>	\$ <u>36,942</u>	\$ <u>373,417</u>

Concluded

The accompanying notes are an integral part of these financial statements.

TWO FEATHERS - NATIVE AMERICAN FAMILY SERVICES

Statements of Cash Flows Years Ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (44,561)	\$ (17,491)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Prior period adjustments	(1,443)	-
Depreciation	21,149	25,188
Gain on sale of assets	-	(12,545)
(Increase) decrease in operating assets:		
Grant and contract receivables	(21,795)	5,585
Other assets	10	(380)
Increase (decrease) in operating liabilities:		
Accounts payable	5,157	6,183
Accrued expenses	(1,497)	(7,746)
Deferred revenue	(254)	(16,591)
Other liabilities	<u>24,763</u>	<u>20,000</u>
Net cash provided by operating activities	<u>(18,471)</u>	<u>2,203</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Adjustments to reconcile change in net assets to net cash provided (used) by investing activities:		
Change in property and equipment, net	<u>-</u>	<u>5,286</u>
Net cash provided (used) by investing activities	<u>-</u>	<u>5,286</u>
NET INCREASE (DECREASE) IN CASH	(18,471)	7,489
CASH AND CASH EQUIVALENTS, BEGINNING	<u>16,951</u>	<u>9,462</u>
CASH AND CASH EQUIVALENTS, ENDING	<u>\$ (1,520)</u>	<u>\$ 16,951</u>

The accompanying notes are an integral part of these financial statements.

TWO FEATHERS - NATIVE AMERICAN FAMILY SERVICES
Notes to the Financial Statements
Years Ended June 30, 2008 and 2007

NOTE 1 REPORTING ENTITY

A. Organization

Two Feathers - Native American Family Services (the "Organization") is a non-profit organization established to serve the needs of Indian communities in Humboldt County. The Organization is organized and operates as a tribally chartered entity of Big Lagoon Rancheria, a federally recognized Indian Tribe. The Organization's mission is "to promote the stability and security of families, and to protect the best interest of children". The Organization's services include:

- Social Work (case management; court, school, and interagency advocacy; crisis intervention; information and referrals; victim of crime compensation assistance; transportation; parenting and cultural education).
- Counseling (assessment and referrals; child and family counseling; teen and adult group counseling).
- Therapeutic Culture Groups (inter-tribal drumming, song, and dance; storytelling and art; basket-weaving and dress-making; regalia making; trips to local cultural events; cultural healing groups).

B. Programs

The Organization's programs include:

- American Indian Child Abuse Treatment Program (AICHAT) – AICHAT program is designed to fund established American Indian child abuse treatment agencies in California having a minimum of two years experience providing child abuse treatment services to American Indian child victim of abuse
- Indian Child Welfare Act (ICWA) - ICWA program provides assistance to keep children connected to their families and tribes who have been removed from their homes by both public and private agencies.
- Children's Justice Act Partnerships for Indian Communities (CJAP) – CJAP program facilitates the investigation, prosecution, and handling of child abuse cases, particularly cases of child sexual abuse in a manner that limits additional trauma to the child victim.
- Community of Tribal Women's Outreach Network (CO-TKWOHM) – CO-TKWOHM program is designed to provide outreach services and training regarding the dynamics of sexual assault and domestic violence perpetrated against Native American women; and to provide linkages to available resources, including legal options.

TWO FEATHERS - NATIVE AMERICAN FAMILY SERVICES
Notes to the Financial Statements
Years Ended June 30, 2008 and 2007

NOTE 1 REPORTING ENTITY - Continued

- Violence Against Women Act (VAWA) – VAWA program is designed to encourage tribal governments to develop and strengthen the tribal justice system's response to violence against Indian women, and to improve the services available to victims of domestic violence, sexual assault, and stalking in Indian country.

C. Board of Directors

The Organization is governed by the Board of Directors (the "Board") from representatives from the Big Lagoon Rancheria. The Board has the power and function to conduct on behalf of the Organization all its business and to adopt bylaws for the conduct of its business.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Organization complies with generally accepted accounting principles (GAAP). Financial statement is presented under the accrual basis of accounting. Under this basis, revenues are recognized when they are realized and earned, and expenses are recognized when the services, supplies, and the allocated benefits of assets have been incurred for those revenues. Revenues are realized and earned when the exchange of transactions for goods and/or services are transferred and/or performed.

Basis of Presentation

The Organization's financial statement presentation follows the Statement of Financial Accounting Standards No. 117 (SFAS 117), *Financial Statements for Not-for-Profit Organizations*. Under SFAS 117, the Organization is required to report information regarding its financial position and activities according to three classes of net assets that are described as follows:

- a) Unrestricted net assets are currently available for operations at the discretion of the Board.
- b) Temporarily restricted net assets are stipulated by donors as available for operations only for a specific purpose and/or time period. Currently, the Organization does not have temporarily restricted assets.
- c) Permanently restricted net assets are stipulated by donors to remain in perpetuity and only the income from these assets is available for operations as unrestricted. Currently, the Organization does not have temporarily restricted assets.

TWO FEATHERS - NATIVE AMERICAN FAMILY SERVICES

Notes to the Financial Statements Years Ended June 30, 2008 and 2007

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Functional Allocation of Expenses

The costs of providing various programs and other activities have been summarized in the statement of functional expenses. Expenses for supporting services are those that are not directly attributable to the individual programs but provide for the overall support and direction of the Organization.

Use of Estimates and Assumptions

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Income Tax Status

The Organization is organized and operates as a tribally chartered entity of Big Lagoon Rancheria, a federally recognized Indian Tribe. The Organization is exempt from income tax under the Federal Internal Revenue Code and Section 501(c)(3).

Cash and Cash Equivalents

The Organization considers as cash and cash equivalents all highly liquid assets including cash, checking and savings accounts, money market accounts, and certificates of deposits with original maturities of three months or less, are readily convertible to a known amount of cash, and are subject to an insignificant risk of changes in value. Cash and cash equivalents are available for operations.

Property and equipment

Property and equipment which includes office furniture and fixtures, computer and equipment, and vehicles are valued at historical cost. Donated property and equipment are valued at their estimated fair market value on the date donated. Property and equipment are defined as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of one year. The costs of normal maintenance and repairs or renovations that do not add to the value of the asset or materially extend the life of the asset are not capitalized.

Property and equipment are depreciated using the straight-line method over the asset's estimated useful life which is 7 years for office furniture and fixtures, and vehicles, and between 3 – 5 years for computer and equipment.

TWO FEATHERS - NATIVE AMERICAN FAMILY SERVICES
Notes to the Financial Statements
Years Ended June 30, 2008 and 2007

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Employee Pension Plan

After a year of employment, employees may contribute to their Simple Individual Retirement Account (Simple IRA). The Organization matches up to 3 percent of salary as an organizational contribution to the employee's Simple IRA.

Accrued Vacation

Accumulated unpaid employee vacation leave benefits are recognized as liabilities as required by GAAP. The liabilities are presented as part of accrued expenses.

NOTE 3 CASH AND CASH EQUIVALENTS

The Organization's cash and cash equivalents account consists primarily of checking, which is insured up to \$100,000 by Federal Deposit Insurance Corporation. Cash and cash equivalents as of June 30, 2008 and 2007 are \$(1,520) and \$16,951 respectively.

NOTE 4 CONTRIBUTED SERVICES (IN-KIND MATCH)

The Organization receives contributed services from many individuals who perform a variety of tasks for the Organization's programs and projects. The Organization believes that these contributed services comply with the in-kind match conditions as set forth in the grant award agreements.

During the fiscal years ended June 30, 2008 and 2007, the majority of contributed services received by the Organization does not meet the recognition criteria contained in Statement of Financial Accounting Standards No. 116, Accounting for Contributions Received and Contributions Made and accordingly, has not been recorded in the accompanying financial statements. The Organization believes that these contributed services are immaterial to the presentation of the financial statements.

TWO FEATHERS - NATIVE AMERICAN FAMILY SERVICES
Notes to the Financial Statements
Years Ended June 30, 2008 and 2007

NOTE 5 GRANTS AND CONTRACTS RECEIVABLES

Grant and contract receivables as of June 30, 2008 and 2007 are as follows:

	<u>2008</u>	<u>2007</u>
VAWA	\$ -	\$ 24,998
CO - TKWOHM	29,132	13,779
AICHAT	30,397	-
Others	<u>1,043</u>	<u>-</u>
Total	<u>\$ 60,572</u>	<u>\$ 38,777</u>

NOTE 6 PROPERTY AND EQUIPMENT

Property and equipment as of June 30, 2008 and 2007 are as follows:

	<u>2008</u>	<u>2007</u>
Property and equipment being depreciated:		
Office furniture and fixture	\$ 38,358	\$ 38,358
Computer and equipment	76,639	76,639
Vehicles	<u>67,716</u>	<u>67,716</u>
Total property and equipment being depreciated:	<u>182,713</u>	<u>182,713</u>
Less accumulated depreciation:		
Office furniture and fixture	38,358	38,358
Computer and equipment	69,735	58,261
Vehicles	<u>37,511</u>	<u>27,836</u>
Total accumulated depreciation	<u>145,604</u>	<u>124,455</u>
Net book value	<u>\$ 37,109</u>	<u>\$ 58,258</u>

Depreciation for the years ended June 30, 2008 and 2007 were \$11,474 and \$12,578 for computers and equipment, and \$9,675 and \$12,610 for vehicles respectively.

TWO FEATHERS - NATIVE AMERICAN FAMILY SERVICES
Notes to the Financial Statements
Years Ended June 30, 2008 and 2007

NOTE 7 CONTINGENT LIABILITIES

Governmental grants and contracts require the fulfillment of certain conditions as set forth in the terms of the contract or grant award agreement, and are subject to audit by the grantor. Failure to comply with these conditions could result in the return of funds to the grantor. Although it is a possibility, the Organization believes that it has complied with the conditions of its contracts and grant award agreements, and no significant liabilities will result from audit.

NOTE 8 RELATED PARTY TRANSACTION

As of June 30, 2008 and 2007, the Organization owed Big Lagoon Rancheria a non interest short term loan of \$54,000 and \$20,000 respectively. The loan is presented as part of other liabilities.

**Supplementary
Information**

TWO FEATHERS - NATIVE AMERICAN FAMILY SERVICES
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2008

Federal Grantor/Pass-Through/ <u>Program or Cluster Title</u>	Award/Contract <u>Period</u>	Award/Contract <u>Number</u>	Revenue <u>Recognized</u>	Expenditure <u>Recognized</u>
<u>U.S. Department of Justice:</u>				
FY 2006 STOP Violence Against Indian Women Discretionary Grant Program (VAWA)	8/1/06 - 7/31/08	2006WIA0011	\$ 91,219	\$ 91,219
American Indian Child Abuse Treatment Program (AICAT)	10/01/07 - 9/30/08	NA07011604	80,182	80,182
Pass through the State of California - Office of Emergency Services - Native American Sexual Assault and Domestic Violence Program:				
Community of Tribal Women's Outreach Network (CO-TKWOHM)	10/1/06 - 9/30/07	IN06081604	21,641	21,641
	10/1/07 - 9/30/08	IN07091604	<u>60,859</u>	<u>60,859</u>
Total			\$ <u>253,901</u>	\$ <u>253,901</u>



Vargas and Company

certified public accountants

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board Members of
Two Feathers - Native American Family Services
McKinleyville, California

We have audited the financial statements of Two Feathers – Native American Family Services (the “Organization”) for the year ended June 30, 2008, and have issued our report thereon dated March 5, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Organization’s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization’s internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity’s ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity’s financial statements that is more than inconsequential will not be prevented or detected by the entity’s internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity’s internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that is required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Organization in a separate letter dated March 5, 2009.

This report is intended for the information of the audit committee, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.


Vargas and Company
San Jose, California
March 5, 2009

TWO FEATHERS - NATIVE AMERICAN FAMILY SERVICES
Schedule of Findings and Questioned Costs
Year Ended June 30, 2008

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unqualified.
Internal control over financial reporting:	
• Material weakness(es) identified?	No.
• Significant deficiency(ies) identified that are not considered to be material weakness(es)?	None reported.
Noncompliance material to financial statements noted?	No.
<u>Federal Awards</u>	Not applicable.

Section II - Financial Statement Findings

Our audit of the accompanying financial statements of Two Feathers – Native American Family Services (the “Organization”), as of and for the year ended June 30, 2008, disclosed no findings nor questioned costs.

Our report on the Organization’s compliance and on internal control over financial reporting and compliance and other matters based on an audit of the financial statements performed in accordance with *Government Auditing Standards*, as of and for the year ended June 30, 2008, disclosed no findings nor questioned costs.

Section III - Federal Award Findings and Questioned Costs

Not applicable.

TWO FEATHERS - NATIVE AMERICAN FAMILY SERVICES
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2008

Section I - Financial Schedule Findings

The audit of the financial statements of Two Feathers – Native American Family Services (the “Organization”), as of and for the year ended June 30, 2007, disclosed no findings nor questioned costs.

The report on the Organization’s compliance and on internal control over financial reporting based on an audit of the financial statements performed in accordance with *Government Auditing Standards*, as of and for the year ended June 30, 2007, disclosed no findings nor questioned costs.

Section II- Federal Award Findings and Questioned Costs

Not applicable.



Vargas and Company

certified public accountants

To the Board Members of
Two Feathers - Native American Family Services
McKinleyville, California

In planning and performing our audit of the financial statements of Two Feathers - Native American Family Services (the "Organization") for the year ended June 30, 2008, we considered the Organization's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit, we became aware of some matters that are opportunities for strengthening internal controls and operating efficiency. We previously reported on the Organization's internal control in our report dated March 5, 2009. This letter does not affect our report dated March 5, 2009, on the financial statements of the Organization. We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with the Organization's management, and will be pleased to discuss it in further detail at your convenience, to perform any additional study of this matter, or to assist you in implementing the recommendation. Our comments are summarized as follows:

Reporting:

- Some of the Organization's beginning account balances including net assets have not been properly rolled over from the prior audit.
- Program transactions have not been properly recorded on their designated fund because there were instances whereby expenses and revenues have been recorded on the general fund.

We recommend that the Organization modify its policies and procedures to ascertain that the audit balances are rolled forward and that fund management is performed according to generally accepted accounting principles.

California Tax Return:

- During our audit for the fiscal year ended June 30, 2006, we became aware that the Organization filed a California return for the fiscal year ended June 30, 2005 without incorporating and that the employer number was used on the return instead. We recommended then that the Organization should incorporate if it wants to file a return. Management has decided then not to incorporate because the Organization is organized and operates as a tribally chartered entity of Big Lagoon Rancheria, a federally recognized Indian tribe, and therefore, a California return is not required.

We recommend that the Organization work with Franchise Tax Board through its Resolutions Unit (by confirming in writing that the Organization was created under Big Lagoon Rancheria's federal authority as a federally recognized Indian tribe) to resolve this issue because as of the date this letter, they have been requesting that a California return be filed.

Budgeting/Reserves:

- During our audit, we became aware that a portion of the Organization's current liabilities is underfunded. Although the Organization generates short term loans from Big Lagoon Rancheria to finance its operating expenses, the underfunded portion of this loan equaling to \$25,000 would need to be repaid through cash donations or other fund raising efforts.

We recommend that the Organization formulate a plan to ascertain that this unfunded portion of short term loan from Big Lagoon Rancheria is repaid in the coming years.

This report is intended solely for the information and use of the Board Members, management, and others within the Organization.


Vargas and Company
San Jose, California
March 5, 2009